



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
METCALFE COUNTY FISCAL COURT**

Fiscal Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Auditor of Public Accounts has completed the Metcalfe County Fiscal Court audit for fiscal year ended June 30, 2001. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$309,397 from the prior fiscal year, resulting in a cash surplus of \$873,467 as of June 30, 2001.

Debt Obligations:

Lease purchase agreements totaled \$197,332 as of June 30, 2001. Future principal payments of \$197,332 are needed to meet these obligations.

As of June 30, 2001, the county had unpaid bond anticipation notes totaling \$510,692. These notes were subsequently paid off on October 26, 2001.

Report Comments:

- Accurate Accounting Records Should Be Maintained By The County
- Salaries Should Be Approved For All County Employees And Posted To Proper Payroll Accounts
- Personnel Files Should Be Properly Maintained For All County Employees

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donald M. Butler II, Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Metcalfe County, Kentucky, as of June 30, 2001, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis accounting system does not require an entity to maintain a general fixed asset group or a general long-term debt group of accounts.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2001 of Metcalfe County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Donald M. Butler II, Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 22, 2002 on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Metcalfe County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- Accurate Accounting Records Should Be Maintained By The County
- Salaries Should Be Approved For All County Employees And Posted To Proper Payroll Accounts
- Personnel Files Should Be Properly Maintained For All County Employees

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 22, 2002

METCALFE COUNTY OFFICIALS

Fiscal Year Ended June 30, 2001

Fiscal Court Members:

Donald M. Butler II	County Judge/Executive
Jessie Harper	Magistrate
Barry Steele	Magistrate
Greg White	Magistrate
Ervin Blythe	Magistrate

Other Elected Officials:

John P. Blevins	County Attorney
Jim L. Edwards	Jailer
Carol E. England	County Clerk
Mary M. Shive	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry N. Wilson	Coroner

Appointed Personnel:

Martha C. Richardson	County Treasurer
Laura Rigdon	Occupational Tax Collector
Angie Tucker	Finance Officer
Dean Rowe	Road Supervisor

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STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

METCALFE COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2001

Assets

General Fund Type

General Fund:			
Cash	\$	301,079	
Road and Bridge Fund:			
Cash		292,343	
Jail Fund:			
Cash		13,521	
Local Government Economic Assistance Fund:			
Cash		5,630	
State Grant Fund:			
Cash		10,792	
Due from General Fund		392	
Disaster and Emergency Services Fund:			
Cash		6,123	
Ambulance Fund:			
Cash		241,278	
County Parks Fund:			
Cash		1,046	
Payroll Revolving Account - Cash		<u>892</u>	\$ 873,096

Special Revenue Fund Type

Community Development Block Grant Fund:			
Cash	\$	4	
Animal Shelter Fund:			
Cash		<u>1,651</u>	1,655

Other Resources

General Fund Type

State Grant Fund:			
Amounts to be Provided in Future Years For Bond Anticipation Notes (Note 6)		<u>510,692</u>	
Total Assets			<u><u>\$ 1,385,443</u></u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
 ARISING FROM CASH TRANSACTIONS
 June 30, 2001
 (Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund - Due to State Grant Fund	\$	392	
Payroll Revolving Account		892	
State Grant Fund-			
Bond Anticipation Notes (Note 6)		<u>510,692</u>	\$ 511,976

Fund Balances

General Fund Type

General Fund	300,687	
Road and Bridge Fund	292,343	
Jail Fund	13,521	
Local Government Economic Assistance Fund	5,630	
State Grant Fund	11,184	
Disaster and Emergency Services Fund	6,123	
Ambulance Fund	241,278	
Parks Fund	<u>1,046</u>	871,812

Special Revenue Fund Type

Community Development Block Grant Fund	\$	4	
Animal Shelter Fund		<u>1,651</u>	<u>1,655</u>
Total Liabilities and Fund Balances			<u>\$ 1,385,443</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

METCALFE COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2001

	General Fund Type			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,736,376	\$ 1,067,649	\$ 1,108,002	\$ 37,415
Transfers In	78,891			61,602
Borrowed Money	510,692			
Kentucky Advance Revenue Program	392,300	352,900	39,400	
Total Cash Receipts	<u>\$ 3,718,259</u>	<u>\$ 1,420,549</u>	<u>\$ 1,147,402</u>	<u>\$ 99,017</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,937,671	\$ 788,398	\$ 1,061,855	\$ 92,590
Transfers Out	78,891	78,891		
Kentucky Advance Revenue Program Repaid	392,300	352,900	39,400	
Total Cash Disbursements	<u>\$ 3,408,862</u>	<u>\$ 1,220,189</u>	<u>\$ 1,101,255</u>	<u>\$ 92,590</u>
Excess of Cash Receipts Over Cash Disbursements	\$ 309,397	\$ 200,360	\$ 46,147	\$ 6,427
Cash Balance - July 1, 2000	<u>564,070</u>	<u>100,719</u>	<u>246,196</u>	<u>7,094</u>
Cash Balance - June 30, 2001	<u>\$ 873,467</u>	<u>\$ 301,079</u>	<u>\$ 292,343</u>	<u>\$ 13,521</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2001
(Continued)

General Fund Type				
Local Government Economic Assistance Fund	State Grant Fund	Disaster and Emergency Services Fund	Ambulance Fund	County Parks Fund
\$ 3,472 10,082	\$ 118,604 510,692	\$ 7,803 7,207	\$ 201,699	\$ 3,098
\$ 13,554	\$ 629,296	\$ 15,010	\$ 201,699	\$ 3,098
\$ 9,549	\$ 621,615	\$ 12,069	\$ 160,390	\$ 2,613
\$ 9,549	\$ 621,615	\$ 12,069	\$ 160,390	\$ 2,613
\$ 4,005 1,625	\$ 7,681 3,111	\$ 2,941 3,182	\$ 41,309 199,969	\$ 485 561
\$ 5,630	\$ 10,792	\$ 6,123	\$ 241,278	\$ 1,046

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2001
 (Continued)

	<u>Special Revenue Fund Type</u>	
	Community Development Block Grant Fund	Animal Shelter Fund
<u>Cash Receipts</u>		
Schedule of Operating Revenue	\$ 188,596	\$ 38
Transfers In		
Borrowed Money		
Kentucky Advance Revenue Program		
Total Cash Receipts	<u>\$ 188,596</u>	<u>\$ 38</u>
<u>Cash Disbursements</u>		
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 188,592	\$
Transfers Out		
Kentucky Advance Revenue Program Repaid		
Total Cash Disbursements	<u>\$ 188,592</u>	<u>\$</u>
Excess of Cash Receipts Over Cash Disbursements	\$ 4	\$ 38
Cash Balance - July 1, 2000		<u>1,613</u>
Cash Balance - June 30, 2001	<u>\$ 4</u>	<u>\$ 1,651</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Metcalfe County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Metcalfe County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Metcalfe County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Metcalfe County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Ambulance Fund, County Parks Fund, Disaster and Emergency Services Fund, and the State Grant Fund which was formerly called the Animal Disposal Fund.

METCALFE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Community Development Block Grant Fund and the Animal Shelter Fund of the Fiscal Court are reported as Special Revenue Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Metcalfe County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget was not adopted for the Animal Shelter Fund. This Fund consists of donations from private citizens for the purpose of constructing an animal shelter when sufficient funds become available. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

METCALFE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Metcalfe County Fiscal Court:

Metcalfe County Extension District	Metcalfe County Industrial Development Authority
Metcalfe County Library District	Metcalfe Health Services, Incorporated

G. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. The following are joint ventures in which Metcalfe County is a participant:

Ambulance Service Corporation, Incorporated
 Barren Metcalfe County Emergency Communications Center

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.17 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

METCALFE COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 June 30, 2001
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2001, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Lease-Purchase Agreements

The county has entered into the following lease-purchase agreements:

Description	Monthly Payment	Term of Agreement	Ending Date	Principal Balance 6/30/2001
Fire Truck	Various	120 months	03/20/06	\$ 31,190
Road Equipment	Various	60 months	12/20/02	8,059
Road Grader	Various	60 months	01/20/05	48,943
Computer/Telephone Equipment	Various	36 months	09/20/03	17,526
Trucks	Various	60 months	03/20/06	90,000
Copy Machine	115	36 months	08/23/02	1,614

Note 5. Contract For Personal Services

On July 1, 1999 the Metcalfe County Fiscal Court entered into a contract with Strategic Funding Group, Incorporated for the purpose of assisting in the development of its grant writing and strategic planning activities. This contract was renewed in July of 2000. The contract called for the county to pay a retainer fee of \$12,000, at \$1,000 per month with charges for work done to be assessed against the retainer at \$50 per hour. In addition it called for a 5 percent bonus contingency for all grants awarded through the efforts of Strategic Funding Group, Incorporated. Through the efforts of Strategic Funding Group, Incorporated, the county received a Community Development Block Grant in the amount of \$500,000 in March of 2000. In accordance with the contract, Strategic Funding Group, Incorporated is to receive a contingency bonus of \$25,000 which is to be paid in 25 \$1,000 monthly installments. As of June 30, 2001, the county owed \$12,000 of the contingency bonus.

METCALFE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2001
(Continued)

Note 6. Bond Anticipation Notes

During the fiscal year ended June 30, 2001, Metcalfe County borrowed a total of \$510,692 from the Edmonton State Bank for the purpose of acquiring property and paying architectural fees relating to the construction of a new Administrative Office of the Courts facility. The County subsequently borrowed an additional \$56,383 on July 20, 2001 and an additional \$168,661 on September 13, 2001. The fiscal court had previously passed a resolution of official intent which allowed the county to be reimbursed for capital expenditures relating to this project. On October 1, 2001 bonds were issued for the purpose of financing the construction of the facility. On October 26, 2001 the county was reimbursed from the bond proceeds and these notes were paid in full.

Note 7. Subsequent Events

A. Bond Issue

On May 16, 2000, the Metcalfe County Fiscal Court voted to accept a proposal from J. J. B. Hillard, W.L. Lyons, Incorporated, to serve as Financial Advisor for the issuance of \$5,450,000 in revenue bonds for the purpose of financing the construction of a new Administrative Office of the Courts Facility. On January 23, 2001, the Metcalfe County Fiscal Court adopted and approved a resolution creating the Metcalfe County Public Properties Corporation to issue the bonds and on October 9, 2001, the fiscal court passed a resolution authorizing the Corporation to issue First Mortgage Revenue Bonds Series 2001 in the amount of \$5,000,000, plus or minus ten percent principal amount. Bonds were issued in the amount of \$4,850,000 with an original issuance date of October 1, 2001. These Bonds will mature at various dates with semiannual interest payments due on April 1 and October 1 of each year commencing April 1, 2002.

B. Lease Agreement

On January 22, 2002, the Metcalfe County Fiscal Court voted to enter into a government lease agreement with Kentucky Association of Counties Leasing Trust Program to finance construction of the Metcalfe County Enrichment Center. The approved principal amount of the agreement is to be \$250,000. As of the audit date, no lease proceeds had been received.

Note 8. Insurance

For the fiscal year ended June 30, 2001, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

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COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

METCALFE COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2001

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,023,536	\$ 1,067,649	\$ 44,113
Road and Bridge Fund	1,054,339	1,108,002	53,663
Jail Fund	33,463	37,415	3,952
Local Government Economic Assistance Fund	4,722	3,472	(1,250)
State Grant Fund	805,000	118,604	(686,396)
Disaster and Emergency Services Fund	9,263	7,803	(1,460)
Ambulance Fund	190,950	201,699	10,749
Parks Fund	4,400	3,098	(1,302)
<u>Special Revenue Fund Type</u>			
Community Development Block Grant Fund	<u>515,000</u>	<u>188,596</u>	<u>(326,404)</u>
Totals	<u>\$ 3,640,673</u>	<u>\$ 2,736,338</u>	<u>\$ (904,335)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,640,673
Add: Budgeted Prior Year Surplus			<u>114,500</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,755,173</u>

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SCHEDULE OF OPERATING REVENUE

METCALFE COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2001

Revenue Categories	Totals (Memorandum Only)	GOVERNMENTAL FUND TYPES	
		General Fund Type	Special Revenue Fund Type
Taxes	\$ 956,836	\$ 956,836	\$
In Lieu Tax Payments	49,568	49,568	
Excess Fees	11,269	11,269	
Licenses and Permits	5,900	5,900	
Intergovernmental Revenues	1,603,245	1,414,649	188,596
Charges for Services	3,174	3,174	
Miscellaneous Revenues	50,609	50,571	38
Interest Earned	55,775	55,775	
Total Operating Revenue	<u>\$ 2,736,376</u>	<u>\$ 2,547,742</u>	<u>\$ 188,634</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

METCALFE COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2001

GENERAL FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,312,908	\$ 758,530	\$ 554,378
Protection to Persons and Property	454,575	479,633	(25,058)
General Health and Sanitation	49,142	49,142	
Social Services	2,100	2,000	100
Recreation and Culture	4,400	2,613	1,787
Roads	1,005,368	963,588	41,780
Debt Service	48,000	36,916	11,084
Capital Projects		235,016	(235,016)
Administration	363,680	221,641	142,039
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$ 3,240,173	\$ 2,749,079	\$ 491,094
SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 500,000	\$	\$ 500,000
General Health and Sanitation	15,000		15,000
Debt Service		188,592	(188,592)
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 515,000	\$ 188,592	\$ 326,408

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

T. Kevin Flanery, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Donald M. Butler II, Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Metcalfe County, Kentucky, as of and for the year ended June 30, 2001, and have issued our report thereon dated March 22, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- Proper Personnel Files Should Be Maintained For County Employees
- Salaries Should Be Approved For All County Employees And Posted To Proper Payroll Accounts

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Metcalfe County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Accurate Accounting Records Should Be Maintained By The County

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 22, 2002

COMMENTS AND RECOMMENDATIONS

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2001

REPORTABLE CONDITIONS:

1) Accurate Accounting Records Should Be Maintained By The County

The County's receipts and disbursements ledgers were not accurately posted resulting in an inaccurate financial statement. Although the county maintained two appropriations ledgers, one of these was not printed so auditors were unable to determine if it was properly prepared and reconciled. Errors in the financial records included the following:

- a. Numerous receipts and expenditures were posted to incorrect categories and had to be reclassified.
- b. \$275,676 in bond anticipation notes receipts were incorrectly posted as state grant receipts.
- c. Interest earned on a Certificate of Deposit for the Ambulance Fund and a portion of interest earned on the Kentucky Advanced Revenues Program funds were not included on the receipts ledger. These interest amounts totaled \$15,539.
- d. The county received \$392,300 in Kentucky Advanced Revenue Program funds which were not budgeted or included in the county's financial records. In addition, interest paid on these funds totaling \$8,919 was not included as an expenditure on the county's financial records.
- e. The general fund disbursements did not agree to the totals per bank records by \$164.

We recommend that accurate accounting records be maintained in the future and that all receipts and disbursements be included on the county's accounting records. Both appropriations ledgers should be printed and reconciled on a regular basis.

County Judge/Executive Donald M. Butler II's Response:

Part A: Posting Errors

Auditors stated that due to posting errors the financial reports were incorrect. The posting errors that occurred were within the funds and, true there were errors, some human, and others were due to the manner in which the county treasurer received funds and no breakdowns and/or explanations were provided or received. After speaking with auditors, posting errors for 01-02 FY have been corrected. These errors, as stated by the auditors, were in the correct fund and bank accounts, and did not change funds or bank account.

Only one set of ledgers were printed because the CT and FO thought that would be sufficient. The auditors had access to both systems and could request, at anytime, the CT or FO to enter their system for them, and in some cases, were ask that we print from it. [The Auditor] numerous times questioned the CT as to why they were exactly the same.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2001
(Continued)

REPORTABLE CONDITIONS: (Continued)

1) Accurate Accounting Records Should Be Maintained By The County (Continued)

County Judge/Executive Donald M. Butler II's Response (Continued):

Part A: Posting Errors (Continued)

The CT repeatedly tried to explain that when errors were found, by either the CT or FO, we conferred, and then the corrections were made. Because we are using computer systems and not hand ledgers, changes will not be shown as being made if you were using hand ledgers. After consulting with DLG, we have decided in the future, when either the CT or FO finds an error in their accounting, they will print the incorrect ledger sheet(s), forward a copy to DLG and keep a copy file on, and then make corrections. We personally feel this is unnecessary, however, after being questions numerous times by [The Auditor], we feel we have no other solution to what he sees as a "questionable" situation.

Part B:

The CT tried to explain to [The Auditor] that she understood that the \$275,676 [bond anticipation notes receipts] was in the state grant funds because this is where the same were originally budgeted. CT further tried to explain to [The Auditor] that this was borrowed monies for the new Metcalfe County Courthouse which would be funded by a bond issuance sale, and that at the time the bonds had not been issued and was not issued until 10/01. After the bonds were issued the CT met with DLG and with their help has corrected this.

Parts C and D:

The CT had posted the interest earned on the ambulance fund certificate of deposit to her investment ledger, however had failed to post to the ambulance fund ledger.

The J/E and CT understood that because the county did not directly invest the KARP funds that this amount did not have to be budgeted or included in the county's financial records and that only interest which the county directly received had to be posted to the general fund and the road fund. We understand, after meeting with DLG that there exist an agreement between DLG and auditors office concerning this procedure.

Part E:

The CT and outgoing FO, at numerous times during the audit, tried to explain the \$164 to the auditors and that they had found an error of \$163+ when closing their books for the FY. We could not find this error, and at that time we contacted our computer programmer and ask him for his help. Our programmer could not find the error either and at that time, we made an adjustment to our books for this sum.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2001
(Continued)

NONCOMPLIANCES:

2) Salaries Should Be Approved For All County Employees And Posted To Proper Payroll Accounts

During our test of payroll expenditures we were unable to find fiscal court approval for employee salaries. KRS 64.530(1) requires the fiscal court of each county to fix the compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer. This was brought to the attention of the county Judge/Executive by the auditors and on March 12, 2002 the fiscal court approved salaries for the grant coordinator, county treasurer, county road supervisor, solid waste coordinator, and county road employees. However they did not approve salaries for the finance officer, payroll clerk, and occupational tax director.

In addition we noted that several salary expenditures were posted to incorrect accounts. The occupational tax director's salary was posted to the road workers salary account within the road fund. In addition, two other payroll checks including one for the county treasurer and one for the payroll officer were also posted to this account. The rest of the treasurer's and payroll officer's salaries were posted to accounts within the General Fund and the Road Fund titled "County Judge/Executive Secretary Salaries". The Department For Local Government Instruction Guide For County Budget Preparation & State And Local Finance Officer Policy Manual requires all counties to use the account numbers from the chart of accounts within the Uniform System Of Accounts which include accounts for payroll. We recommend that salaries be posted to proper payroll accounts as established by the Uniform System Of Accounts.

County Judge/Executive Donald M. Butler II's Response:

According to instructions of [The Auditor], the J/E presented this matter to the fiscal court and the fiscal court has passed a resolution as stated in the letter of 03/22/02 by the auditors. [The Auditor] told the J/E what salaries should be included and therefore those were the salaries that the J/E brought before the fiscal court, however corrective measures are being taken for the other salaries.

Auditor's Reply:

The fiscal court should have met the requirements of KRS 64.530(1), before we arrived to conduct the audit.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2001
(Continued)

NONCOMPLIANCES (Continued):

3) Personnel Files Should Be Properly Maintained For County Employees

During our test of payroll expenditures, we noted that no personnel files or time sheets were maintained for the county's grant coordinator. In addition the K-4 and W-4 forms in some of the employees files were not up to date. We recommend updated personnel files be maintained for all county employees and that time sheets be maintained for the grant coordinator.

County Judge/Executive Donald M. Butler II's Response:

The J/E explained in detail to the auditor that the grant coordinator was only compensated in the form of insurance and was not a salaried or hourly employee. At present the grant coordinator no longer has insurance through Metcalfe County, however the grant coordinator is continuing his service on a voluntary basis.

It was the understanding of the CT and FO that K-4 and W-4 forms did not have to be updated each year unless the employee wanted to change their status or withholding. New K-4 and W-4 forms have been provided to all county employees and all personnel files are updated.

PRIOR YEAR FINDINGS:

In the prior year audit report, we made the following comments and recommendations:

- Accurate Accounting Records Should Be Maintained By The County
- Proper Personnel Files Should Be Properly Maintained For County Employees

These findings have not been corrected and have been commented on in the current audit report.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

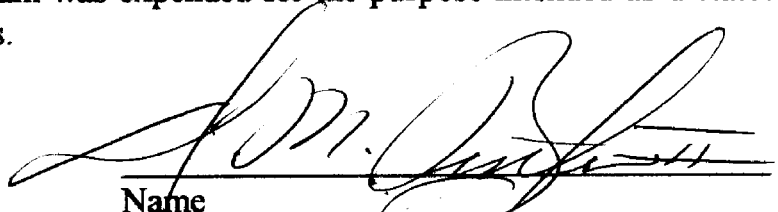
METCALFE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

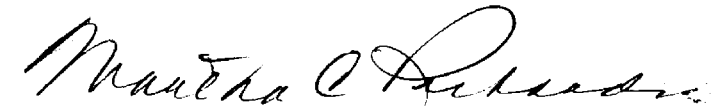
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
METCALFE COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2001

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer